

The Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the State.

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Missouri's (the State's) financial activities for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-Wide:

- *Net Assets.* Assets of the State of Missouri exceeded liabilities at the close of fiscal year 2008 by \$29.5 billion. Of the \$29.5 billion, "unrestricted net assets" is reported as a negative \$2.0 billion, offset by \$6.0 billion in "restricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets increased by \$617.6 million in fiscal year 2008. Net assets for governmental activities increased by \$436.9 million. This increase can be attributed to more grants and contributions. Net assets for the business-type activities showed an increase of \$180.7 million. This increase can be explained primarily by a significant increase in cash and cash equivalents in the Unemployment Compensation Fund due to the early repayment of a federal loan in 2007.
- *Excess of Revenues over (under) Expenses.* During fiscal year 2008, the State's total revenues of \$22.9 billion were \$617.6 million more than total expenses (excluding transfers) of \$22.2 billion. Of these expenses, \$12.3 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled \$10.6 billion.

Fund-Level:

- *Governmental Funds – Fund Balance.* As the close of fiscal year 2008, the State's governmental fund assets exceeded liabilities by \$5.3 billion, an increase of \$598.0 million or 12.9% from the prior year. The increase was primarily due to an increase of \$760.7 million in assets of which \$625.3 million was cash and cash equivalents and investments. This was partially due to the sale of a portion of the Missouri Higher Education Loan Authority assets which provided \$238.9 million to fund the Lewis and Clark Discovery Initiative, creating an increase in investments for fiscal year 2008.
- *General Fund – Fund Balance.* At the end of the current fiscal year, the State's general fund reported a balance of \$1.9 billion.

Additional information regarding individual funds begins on Page 9.

Debt Issued and Outstanding:

- The primary government's total long-term obligations related to bonds payable increased \$405.4 million or 12.1% over the prior year. The outstanding bonds payable represents 46.3% of financial assets (cash, receivables, and investments) and 10.1% of total assets. The net increase in bonds payable resulted from decreases of \$169,400,000 due to bond payments and \$1,955,000 due to defeasance as well as increases of \$576,800,000 due to issuances of State Road Bonds and General Obligation Bonds. Additional detail is available in *Note 12*.

Revenue Limit:

- The State Constitution limits the State's ability to retain revenue collected over an amount set by a constitutional amendment known as Article X or the Hancock Amendment. Excess revenue of 1% or more must be refunded to the taxpayers each year. During fiscal year 2008, the State did not exceed the revenue limit.

OVERVIEW OF THE FINANCIAL STATEMENTS

The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of the State's financial position.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is received. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three activities:

Governmental Activities are primarily supported by taxes and intergovernmental revenues. They include general government, education, natural and economic resources, transportation and law enforcement, and human services.

Business-Type Activities are intended to recover all or a significant portion of their costs through user fees and charges. They include constructing and operating state park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising, publishing maps and documents, insurance coverage, and the operation of the State Lottery, Unemployment Compensation, and the Petroleum Storage Tank Insurance funds.

Discretely Presented Component Units are operations for which the State has financial accountability, but are legally separate. They include the college and universities, Missouri Development Finance Board, Missouri Agricultural and Small Business Development Authority, and Missouri Transportation Finance Corporation.

Fund Financial Statements:

The fund financial statements present more detailed information about the government's operations than the government-wide statements. The State uses fund accounting to ensure and demonstrate compliance with statutory requirements. All of the funds of the State can be divided into three categories: governmental, proprietary, and fiduciary funds.

Governmental funds. Governmental funds are used to account for most of the basic services provided by the State. Unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of current financial resources and utilize the modified accrual basis of accounting. This presentation focuses on when cash will be received and disbursed making the statements useful in evaluating a government's financing requirements in the near future.

Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Major funds include general, public education, conservation and environmental protection, transportation and law enforcement, and the Missouri road fund which are presented in separate columns. Data from other governmental funds are combined into a single column for aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in supplementary information.

In order for the user to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements, a reconciliation to facilitate this comparison is provided on the page immediately following each governmental fund financial statement.

Proprietary funds. Proprietary funds are used to account for activities similar to private businesses in which goods and services are sold for specified fees. Generally, the State uses enterprise funds to account for activities that provide goods and services to the general public. These include constructing and operating state park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising, publishing maps and documents, and the operation of the State Lottery, Unemployment Compensation, and the Petroleum Storage Tank Insurance funds. Internal service funds report activities that provide supplies and services for the State's other programs and activities. The State uses internal service funds to account for insurance and health care plans, as well as administrative services for other state agencies, such as fleet management, data processing, and telecommunication services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds focus on economic resources and utilize the full accrual basis of accounting. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Compensation, and Petroleum Storage Tank Insurance, which are considered major enterprise funds. Non-major enterprise funds are also combined into a single column for aggregated presentation. All internal service funds are combined into a single column in the proprietary fund financial statements. Individual fund data for the non-major enterprise and internal service funds is provided in the form of combining statements in supplementary information.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside State government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (RSI) including a budgetary comparison schedule for the general fund and major special revenue funds. Other supplementary information includes the combining statements for the general, non-major governmental, non-major enterprise, internal service, fiduciary, and non-major component unit funds. It also includes the statistical section as well as budgetary comparison schedules for the Missouri road fund, non-major special revenue, debt service, and permanent funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets:

The State's total net assets increased \$617.6 million or 2.1% during fiscal year 2008. This increase resulted primarily from an increase of \$878.0 million in current and other assets. Net assets invested in capital assets net of related debt and restricted net assets, which do not represent resources available to pay day-to-day operating expenses, increased by \$937.3 million or 3.1%.

Invested in capital assets net of related debt, such as bonds payable or capital lease obligations, is the largest component of the State's net assets at 86.5% or \$25.5 billion. These assets include land, infrastructure, buildings, and equipment which are not easily converted to cash or readily available to pay state debts as they come due.

Restricted net assets of the primary government totaled \$6.0 billion or 20.4% of total net assets, vs. 17.5% from the prior year. Net assets are restricted for several reasons including constitutional, legal, enabling legislation, or external requirements. Examples of restricted net assets include lottery proceeds restricted for public education, funds restricted for debt service, and certain sales taxes restricted for the maintenance of highways or state parks and conservation areas. Also, many federal funds are restricted to funding certain programs.

The following table displays the current and prior year government-wide condensed Statement of Net Assets.

STATEMENT OF NET ASSETS						
(In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007*	2008	2007*	2008	2007*
ASSETS:						
Current and Other Assets	\$ 7,637,879	\$ 6,944,262	\$ 615,983	\$ 431,595	\$ 8,253,862	\$ 7,375,857
Capital Assets, Net	28,960,762	28,419,098	41,755	40,922	29,002,517	28,460,020
<i>Total Assets</i>	36,598,641	35,363,360	657,738	472,517	37,256,379	35,835,877
LIABILITIES:						
Long-Term Liabilities	6,095,681	5,430,523	223,541	221,709	6,319,222	5,652,232
Other Liabilities	1,467,950	1,334,707	17,569	14,916	1,485,519	1,349,623
<i>Total Liabilities</i>	7,563,631	6,765,230	241,110	236,625	7,804,741	7,001,855
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	25,439,971	25,475,504	41,755	40,922	25,481,726	25,516,426
Restricted	5,968,804	5,032,619	45,362	9,517	6,014,166	5,042,136
Unrestricted	(2,373,765)	(1,909,993)	329,511	185,453	(2,044,254)	(1,724,540)
<i>Total Net Assets</i>	<u>\$ 29,035,010</u>	<u>\$ 28,598,130</u>	<u>\$ 416,628</u>	<u>\$ 235,892</u>	<u>\$ 29,451,638</u>	<u>\$ 28,834,022</u>
*Fiscal year 2007 amounts have been restated.						

Changes in Net Assets:

The schedule below reflects how the State's net assets changed during the year. The State earned program revenues of \$12.3 billion and general revenues of \$10.6 billion for total revenues of \$22.9 billion during fiscal year 2008. Expenses for the State during fiscal year 2008 were \$22.2 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased \$617.6 million, net of contributions and transfers.

The following table displays the current and prior year government-wide condensed Statement of Activities.

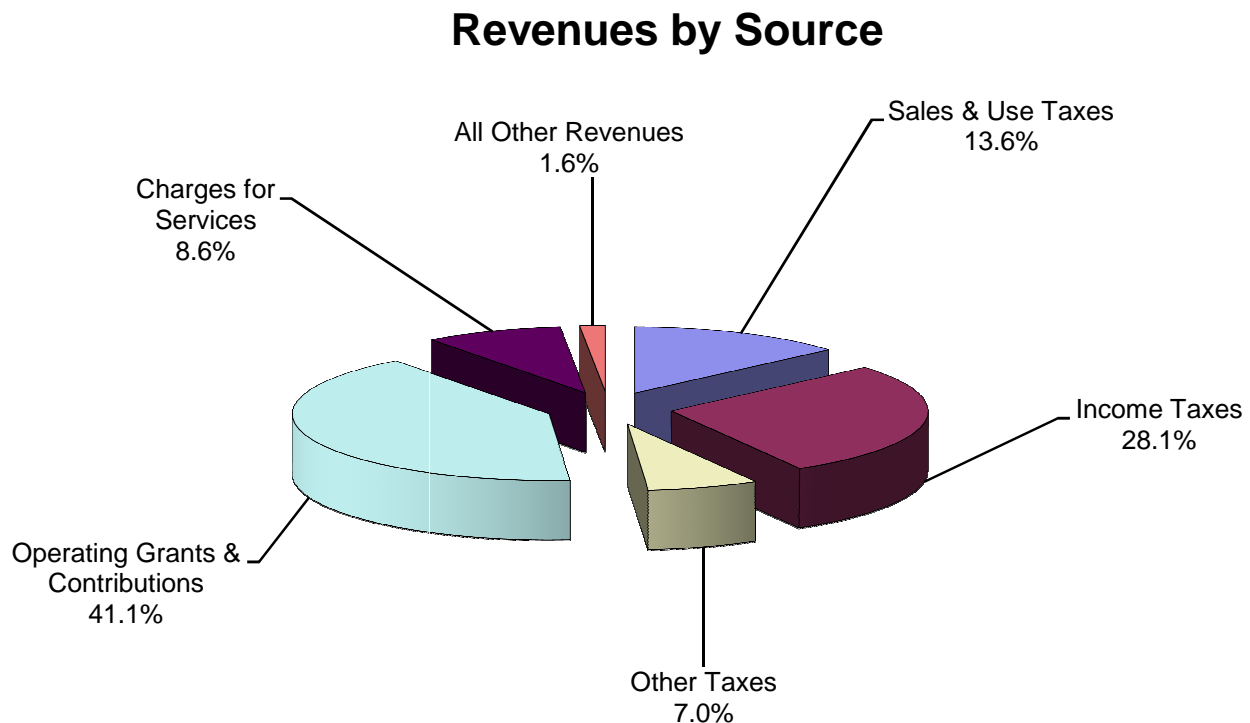
STATEMENT OF ACTIVITIES						
(In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007*	2008	2007*	2008	2007*
REVENUES:						
Program Revenues:						
Charges for Services	\$ 1,816,377	\$ 1,685,635	\$ 1,106,483	\$ 1,011,407	\$ 2,922,860	\$ 2,697,042
Operating Grants and Contributions	8,669,295	7,828,289	657,534	618,071	9,326,829	8,446,360
Capital Grants and Contributions	387	306	---	---	387	306
General Revenues:						
Sales and Use Taxes	2,871,465	2,929,398	---	---	2,871,465	2,929,398
Income Taxes	5,911,643	5,140,588	---	---	5,911,643	5,140,588
Unemployment and Other Taxes	1,472,829	1,942,185	---	---	1,472,829	1,942,185
Other Revenues	331,173	341,541	15,424	5,684	346,597	347,225
<i>Total Revenues</i>	<u>21,073,169</u>	<u>19,867,942</u>	<u>1,779,441</u>	<u>1,635,162</u>	<u>22,852,610</u>	<u>21,503,104</u>
EXPENSES:						
General Government	1,209,716	1,092,613	---	---	1,209,716	1,092,613
Education	6,379,185	6,042,581	---	---	6,379,185	6,042,581
Natural and Economic Resources	1,006,506	928,873	---	---	1,006,506	928,873
Transportation and Law Enforcement	2,255,196	2,303,272	---	---	2,255,196	2,303,272
Human Services	9,876,119	9,191,994	---	---	9,876,119	9,191,994
State Lottery	---	---	740,279	689,426	740,279	689,426
Unemployment Compensation	---	---	498,318	444,962	498,318	444,962
Petroleum Storage Tank	---	---	21,516	16,249	21,516	16,249
Veterans' Homes	---	---	57,066	53,234	57,066	53,234
All Other Expenses	174,450	149,987	16,643	16,498	191,093	166,485
<i>Total Expenses</i>	<u>20,901,172</u>	<u>19,709,320</u>	<u>1,333,822</u>	<u>1,220,369</u>	<u>22,234,994</u>	<u>20,929,689</u>
Increase (Decrease) in Net Assets before Contributions & Transfers	171,997	158,622	445,619	414,793	617,616	573,415
<i>Transfers</i>	<u>264,883</u>	<u>256,687</u>	<u>(264,883)</u>	<u>(256,687)</u>	<u>---</u>	<u>---</u>
Change in Net Assets	436,880	415,309	180,736	158,106	617,616	573,415
<i>Net Assets - July 1</i>	<u>28,598,130</u>	<u>28,182,821</u>	<u>235,892</u>	<u>77,786</u>	<u>28,834,022</u>	<u>28,260,607</u>
<i>Net Assets - June 30</i>	<u>\$ 29,035,010</u>	<u>\$ 28,598,130</u>	<u>\$ 416,628</u>	<u>\$ 235,892</u>	<u>\$ 29,451,638</u>	<u>\$ 28,834,022</u>
*Fiscal year 2007 amounts have been restated.						

Governmental Activities

The net assets of governmental activities increased \$436.9 million in fiscal year 2008. Revenues for the governmental activities totaled \$21.1 billion, while expenses totaled \$20.9 billion in 2008.

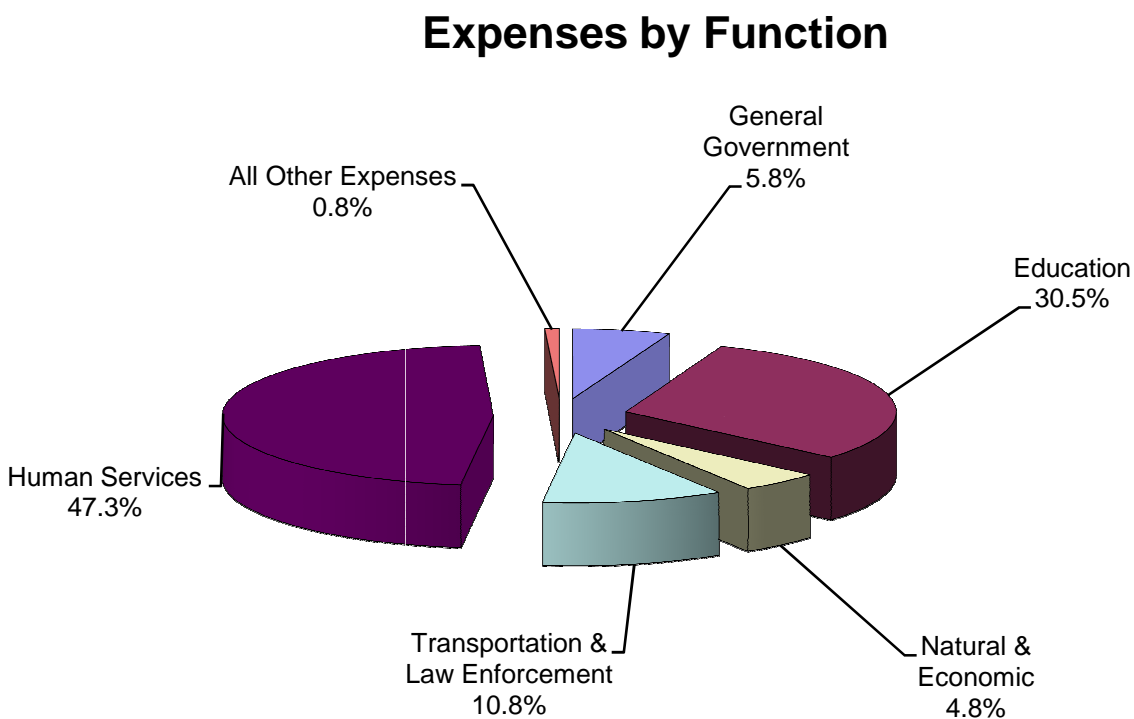
General and program revenues of governmental activities increased \$1.2 billion during the fiscal year. The increase in revenue was due primarily to an increase of \$841.0 million in operating grants and contributions.

As shown in the Revenues by Source chart below, approximately 48.7% of revenues from all sources earned came from taxes. Operating grants and contributions, which represents amounts received from other governments/entities, primarily the federal government, provided 41.1% of total revenue. Charges for services contributed 8.6% and various other revenues provided 1.6% of the remaining governmental activity revenue sources.



The State's governmental activities program expenses increased \$1.2 billion during fiscal year 2008. Transportation and Law Enforcement expenditures decreased \$48.1 million while General Government, Education, Natural and Economic Resources, Human Services, and Other Expenses increased \$1.2 billion.

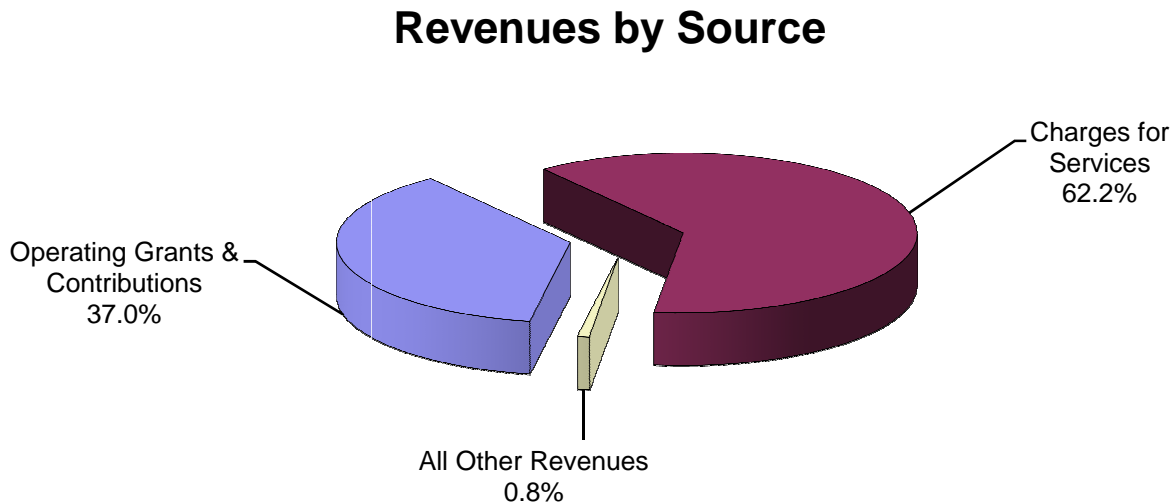
As shown in the Expenses by Function chart below, expense for Human Services makes up the largest portion – 47.3% – of total governmental expenses.



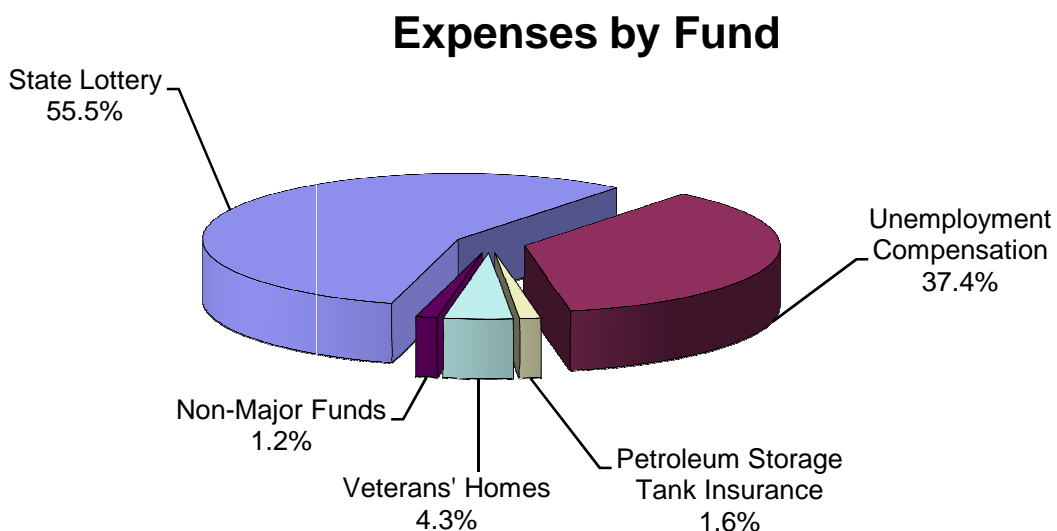
Business-Type Activities

Net assets of the State's business-type activities increased \$180.7 million in fiscal year 2008. Total business-type program revenues increased by \$134.5 million during the current fiscal year. Program expenses of business-type activities increased \$113.5 million from fiscal year 2007 to 2008.

Revenues of business-type activities totaled \$1.8 billion. As shown in the Revenues by Source chart below, 62.2% of the revenues came from charges for services. Operating grants and contributions provided 37.0% of total revenue and all other revenues provided 0.8%.



Expenses of business-type activities totaled \$1.3 billion. As shown in the Expenses by Fund chart below, the State Lottery makes up the largest portion with 55.5% of total business-type expenses. Unemployment compensation comes in second at 37.4%, followed by veterans' homes at 4.3%, petroleum storage tank at 1.6%, and non-major funds at 1.2%.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds:

At the end of fiscal year 2008, the State's governmental funds reported combined ending fund balances of \$5.3 billion. Approximately 67.7% is unreserved and available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) for budget reserve, 2) to pay debt service, 3) for loans receivable, and 4) for a variety of other purposes.

Fund balances (in thousands) for governmental funds are as follows:

	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement	Missouri Road Fund	Non- Major	Total
Unreserved	\$ 1,335,999	\$ 390,639	\$ 413,104	\$ 198,789	\$ 858,865	\$ 356,281	\$ 3,553,677
Reserved	584,441	42	792,285	8,983	145,744	165,203	1,696,698
Total	\$ 1,920,440	\$ 390,681	\$ 1,205,389	\$ 207,772	\$ 1,004,609	\$ 521,484	\$ 5,250,375

The general fund is the chief operating fund of the State. At the end of fiscal year 2008, the State's general fund reported a total fund balance of \$1.9 billion. The net increase in fund balance during fiscal year 2008 was \$63.5 million. Expenditures of the general fund totaled \$13.0 billion in fiscal year 2008, an increase of \$873.7 million from fiscal year 2007. The major contributing factor to this was an increase in expenditures for human services of \$706.0 million from fiscal year 2007 to fiscal year 2008. The most significant increase was medical assistance payments which increased \$328.4 million.

The public education fund provides general and special education services to the children of the State and other related functions such as library services and student loans. Total fund balance increased by \$87.0 million. Revenues of the public education funds totaled \$1.5 billion in fiscal year 2008, an increase of \$249.5 million from fiscal year 2007. The major factor that contributed to this was an increase of \$245.3 million in the contributions and intergovernmental revenues.

The conservation and environmental protection fund provides for the preservation of the State's wildlife and environment. The fund balance increased by \$74.4 million. Major contributing factors to this were increases of \$23.4 million in licenses, fees, and permits, and \$11.5 million in penalties and unclaimed property.

The transportation and law enforcement fund provides transportation services, road construction and maintenance, and the enforcement of vehicle laws and traffic safety. The fund balance decreased by \$5.2 million. The major factor contributing to this was an increase in expenses, including a \$50.5 million increase in transfers to the Missouri road fund.

The Missouri road fund accounts for revenues from highway users' fees, federal reimbursements for highway projects, and bond proceeds to be used for costs of constructing and maintaining an adequate state highway system. The fund balance increased by \$346.8 million in fiscal year 2008. Revenues of the Missouri road fund increased during fiscal year 2008 by \$81.3 million primarily due to an increase of \$110.5 million in revenues from contributions and intergovernmental funds.

Proprietary Funds:

The State has three major proprietary funds: State Lottery, Unemployment Compensation, and the Petroleum Storage Tank Insurance Fund. The State Lottery was established in 1986 to account for the sale of lottery tickets and lottery operations. Since 1992, public education has been the sole beneficiary of lottery proceeds. Unemployment Compensation accounts for contributions and payments collected from Missouri employers under the provision of the "Unemployment Compensation Law." This tax finances benefits for workers who become unemployed through no fault of their own. The Petroleum Storage Tank Insurance Fund accounts for moneys collected from transport load fees and participating owners of petroleum storage tanks. The fund pays cleanup expenses for petroleum leaks or spills from underground storage tanks and certain above ground storage tanks as well as third party property damage or bodily injury resulting from such discharges. This fund is one of the largest insurers of tanks in the country.

The State Lottery Fund's net assets increased by \$3.1 million. Revenues increased by \$60.5 million during the fiscal year which was partially offset by an increase in expenses for prizes paid. The increase in revenues was mainly due to a \$61.2 million increase in sales. The overall increase in sales was driven by a 8.2% increase in scratcher ticket sales due to an increase in prizes and the introduction of higher priced games.

The Unemployment Compensation Fund's net assets increased by \$130.3 million due primarily to steady growth after the repayment of a federal loan in 2007. This has allowed for an increase in investments, leading to an increase in interest revenue by \$6.7 million. Revenues and expenses remain consistent, with revenues outpacing expenses.

The Petroleum Storage Tank Insurance Fund's net assets increased by \$7.6 million. Expenses increased by \$5.3 million primarily due to increased program expenses. However, revenues continued to outpace expenses during the fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget is the first complete appropriated budget that is truly agreed to and finally passed, and signed by the Governor. The final budget includes emergency and supplemental appropriations, transfers, and increases to estimated appropriations.

Budgeted appropriations for fiscal year 2008 from the general fund were \$18.3 billion original budget and \$18.7 billion revised budget. Actual spending was \$17.6 billion. Reasons for the budget variances include:

- Federal grants received were lower than appropriation authority.
- Multiple year grants are appropriated in one year but the expenditures may occur over several years.
- Appropriation authority exceeded cash available for expenditures.

Budgeted revenues/transfers in for fiscal year 2008, for the general fund, was \$18.1 billion original budget and \$18.2 billion revised budget. Actual revenue/transfers in was \$17.8 billion. The main cause of the variance is due to federal programs receiving lower awards than anticipated.

Refer to the *Notes to RSI*, Budgetary Reporting, on page 101 for more information on budgetary variances.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, was \$29.0 billion (net of accumulated depreciation). This investment in capital assets includes construction in progress, infrastructure in progress, land, land improvements, buildings and improvements, equipment, and infrastructure.

Capital Assets of the State include (in thousands):

	Governmental Activities	Business-Type Activities	Total
Construction in Progress	\$ 678,836	\$ 3,134	\$ 681,970
Infrastructure in Progress	2,672,052	---	2,672,052
Land	2,772,245	7,686	2,779,931
Land Improvements	152,845	7,446	160,291
Buildings and Improvements	2,519,312	27,915	2,547,227
Equipment	1,166,544	45,974	1,212,518
Infrastructure	41,257,724	---	41,257,724
<i>Subtotal</i>	51,219,558	92,155	51,311,713
Less Accumulated Depreciation	(22,258,796)	(50,400)	(22,309,196)
Total Capital Assets, Net	\$ 28,960,762	\$ 41,755	\$ 29,002,517

Additional information on capital assets can be found in *Note 5* of this report.

Debt Administration:

At the end of fiscal year 2008, the primary government had total general obligation and other bonded debt outstanding of \$3.8 billion. Of this amount, \$666.2 million comprises debt backed by the full faith and credit of the government.

Principal amounts retired in fiscal year 2008 were \$68,350,000 for general obligation bonds and \$103,005,000 for other bonds.

The State of Missouri is proud to be one of only seven states to maintain a Triple-A credit rating from all three major credit rating agencies (Moody's Investor Services, Inc., Standard and Poor's, and Fitch Ratings, Inc.) on the State's General Obligation Bonds.

Outstanding Bonds Payable of the State include (in thousands):

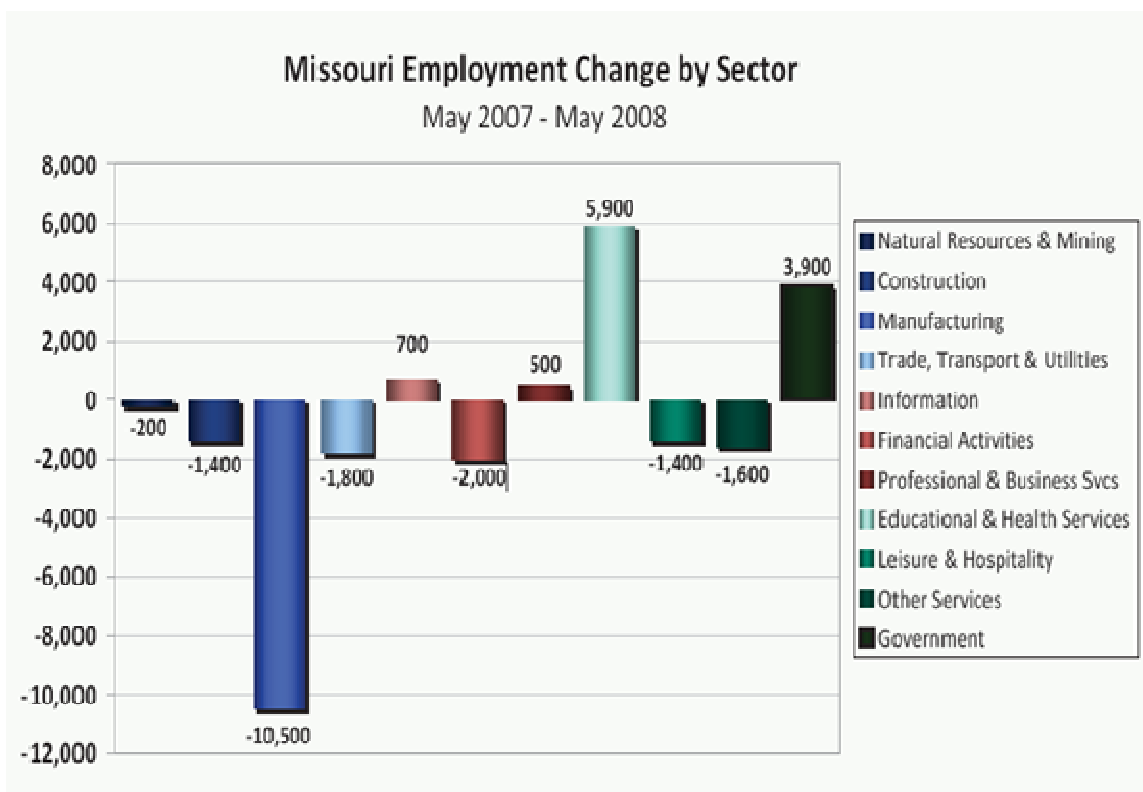
	Governmental Activities	Component Units	Total
General Obligation Bonds	\$ 666,165	\$ ---	\$ 666,165
Other Bonds	3,084,670	1,399,124	4,483,794
Total	\$ 3,750,835	\$ 1,399,124	\$ 5,149,959

Additional information on long-term debt can be found in *Notes 11, 12, and 13* of this report.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The State of Missouri completed fiscal year 2008 with a balanced budget. Net general revenue collections increased 3.7% from fiscal year 2007 ending with an amount of \$8.0 billion. The approved budget for fiscal year 2009 anticipates an increase of 2.8 % from fiscal year 2008 in general revenue collections. However, worsening economic conditions will make it difficult to achieve the increase in revenues.

As a major manufacturing, financial, and agricultural state, Missouri's economic health is tied closely to that of the nation. The national economy has slowed in 2008; it is not expected to return to growth near average until mid-to-late 2009. The rate of Missouri's employment growth began to slow in 2007. Missouri's unemployment rate increased 0.7% in fiscal year 2008. At June 2008 the unemployment rate was 5.7% compared to the June 2007 unemployment rate of 5.0%. The national unemployment rate was 5.5% in June 2008. The graph below shows the growth and decline in employment by employment sector.



Employment growth by industry identifies the types of jobs being created in the state. On the other side of the ledger, industries with decreasing trend employment indicate those which are becoming less important to the state's economy. Comparing May 2008 to May 2007, several sectors have had employment declines in Missouri. Manufacturing employment declined by 10,500 while financial activities, which has been affected by the housing market, declined by 2,000 over the period. The education and health service industry had the largest growth over the year with employment increasing by 5,900; the health care and social assistance subsector makes up more than 80% of the industry. The government sector has also increased in employment over the year.

Missouri's financial position has been strong, however the growth of general revenue for fiscal year 2009 and beyond remains guarded. This will result in several funding challenges in mandatory programs such as education, health care, and transportation.

Funding remains a challenge for Missouri schools. A revision to the school funding formula was made in 2005 in response to a lawsuit filed by 257 of the 524 Missouri schools against the State in January 2004 over both the equity in funding between schools and the overall adequacy of school funding. The revision in the school funding formula calls for \$800 million to be phased in by the 2012-13 school year. However, an amended lawsuit was filed in November 2005 and went to trial in 2007. The judge ruled in favor of the state but an appeal has been filed with the Missouri Supreme Court. In fiscal year 2009, funding for Missouri Public schools will increase by \$121.2 million from fiscal year 2008 due to a change in the school funding formula.

The quality of health care continues to be a priority for Missouri. Missouri Department of Social Services MO HealthNet Division has been awarded a \$1.7 million dollar grant to improve access to medical care for MO HealthNet participants. MO HealthNet was established as a new way to provide health care for low income Missourians and replaces the old Medicaid system.

Missouri will face a significant drop in funding for transportation in 2010 when proceeds from Amendment 3 end. Compounding the problem is rising construction and material costs. Missouri Department of Transportation (MoDOT) has been able to aggressively manage costs by: rebidding projects if they come in too high, closing roads during construction if it saves time and money, asking contractors to use alternate materials, propose innovative design and construction methods and work off-hours, and designing projects to fit specific needs, which has saved \$50 million that will be used to tackle additional highway projects. The 2009–2013 transportation programs currently planned include \$300 million in new construction projects, which is possible because lower than expected interest rates on bond payments has allowed the money received from Amendment 3 to go further. The \$140 million of Amendment 3 money that will be used to pay bond payments, combined with state savings from using Practical Design on projects and local matching funds, allows MoDOT to tackle these new highway projects over the next five years, which includes additional lanes, interchange improvements, and congestion relief.

Despite funding challenges, the State is working to stimulate the economy, increase efficiency, and decrease costs. In fiscal year 2008, Missouri passed Senate Bill 711 which makes changes to the Senior Property Tax Credit and Homestead Tax Credit by preventing burdensome property taxes on low-income seniors. The bill also requires mandatory levy rollbacks. This legislation closed a loophole in the law that allows local governments that are imposing a tax below the approved levy to increase the tax rates by more than inflation. The “Show Me Green Sales Tax Holiday” was created in Senate Bill 1181 making all sales of Energy Star certified new appliances exempt from state sales tax for a seven-day period in April beginning in 2009 and every year thereafter. The bill also requires energy efficiencies in new state building design and construction, and allows for low interest loans for eligible alternative energy operations producing and selling fuel or power from alternative energy sources including solar, hydroelectric, wind, and qualified biomass. Enhancements were authorized to the Quality Jobs program and the Enhanced Enterprise Zone program tax credits through House Bill 2058 and Senate Bill 718. To help protect consumers, House Bill 2188 defines mortgage fraud, foreclosure scams and fraud schemes, and makes mortgage fraud a class C felony.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Administration, Division of Accounting, P.O. Box 809, Jefferson City, MO 65102.